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C O N F I D E N T I A L SECTION 01 OF 04 SHANGHAI 000452

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TREASURY FOR AMB HOLMER, WRIGHT AND TSMITH
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SUBJECT: TREASURY DAN WRIGHT'S SHANGHAI ACADEMIC MEETINGS

REF: SHANGHAI 444

CLASSIFIED BY: Veomayoury Baccam, Acting Pol/Econ Section Chief,
U.S. Consulate , Shanghai .
REASON: 1.4 (b), (d)

¶1. (SBU) Summary. During Treasury Managing Director for China and the Strategic Economic Dialogue (SED) Dan Wright's June 26-27 visit to Shanghai, Shanghai academics agreed with Wright that the talks needed to be focused and institutionalized to be sustainable. Two academics urged more low-level discussions between the United States and China before the next round and emphasized the need for concrete outcomes at the next round of SED talks. Wright's meetings in Nanjing were reported reftel. End summary.

SIIS YANG JIEMIAN: CONCRETE OUTCOMES NEEDED

¶2. (C) In their meeting with Wright, Shanghai Institute of International Studies Vice President Yang Jiemian and SIIS Department of American Studies Director Chen Dongxiao welcomed the opportunity to exchange views on the SED process. Yang said that academics in China paid great attention to the SED process because it was the only "strategic" dialogue between the United States and China. Noting that the talks between Vice Foreign Minister Dai Bingguo and Deputy Secretary Negroponte were only called "senior" dialogue, Yang said China wanted more strategic discussions with the United States because these types of discussions could help both countries to learn more about each other's long-term goals.

¶3. (C) According to Yang, China did not want to challenge the United States' primacy but would rather work together with the United States on an equal basis. China was trying to develop in a mutually beneficial, "win-win" way and not at the expense of the United States. He added that some in the United States joked that the United States did not have one unified foreign policy. In some respects, this also applied to China. China's entire foreign policy was not represented by its oil companies and their plans to develop oil fields in Sudan. In addition,

when China received Venezuelan President Chavez, it tried to do it in a low-key manner as to not irritate the United States. Yang wanted both countries to work together to improve, update and, eventually, establish a new international financial system.

14. (C) Yang agreed that the SED needed to become more pragmatic to be sustainable. He acknowledged that there was significant domestic pressure in both the United States and China for the SED to have more positive outcomes and worried that the SED would not survive past the United States presidential elections.

He considered the next round of talks to be the most important and urged both sides to come to an agreement on a menu of items to discuss. He was pleased that the third round of talks would place at the end of this year, after the 17th Party Congress when there would be more clarity on who were the key players in China. He added that the fourth round of talks should occur after the People's Congress meeting in the spring because, generally speaking, the Chinese leadership would be more flexible at that time.

15. (C) Wright agreed with many of Yang's views and said that Secretary Paulson believed that the most important question of

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the 21st century was how to get the U.S.-China relationship right. The SED was trying to answer this question. While there were always many voices in the United States, the Bush Administration fully supported the SED process. In fact, before the last round of SED talks, there were five Cabinet-level meetings on the SED, two of which were chaired by the President.

In addition, Secretary Paulson spent a great deal of time on Capitol Hill discussing the SED with members of Congress. Wright assured Yang that the United States was working hard to institutionalize the SED and make it more sustainable. The large number of ministers at the last round of talks helped to establish the SED's credibility. However, one of the weak points of the talks was that it became crowded with too many

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issues. There are more than 50 bilateral dialogues such as the Joint Commission on Commerce and Trade (JCCT) between the United States and China. Many of the issues from these dialogues were elevated to the SED. There is an interagency process doing a thorough review to bring more focus to the SED and limit the number of issues discussed. At the same time, the USG wanted to maximize the effectiveness of the bilateral dialogues

16. (C) Yang agreed that the SED needed to be institutionalized.

He suggested that both countries work together on economic issues such as capital markets and the Asian Monetary Fund as well as coordinate on important meetings such as APEC. This would make the economic relationship more strategic. He added that Track II talks in which academics could exchange ideas and float proposals would also be useful. He also thought it was important to find a linkage between the SED and U.S.-China discussions in other fields, namely political and security. SIIS American Studies Director Chen shared some of the same views. He urged that the talks also be used as a platform to reduce tensions, rather than a channel to spotlight tensions. According to Chen, there was a huge gap in how the two governments viewed the SED and how the media in both countries viewed it. More needed to be done to educate the Chinese and U.S. domestic audience about the positive aspects of the SED.

SASS HUANG RENWEI: PRIORITIES NEED TO BE CLARIFIED

17. (C) Shanghai Academy of Social Sciences (SASS) Vice President Huang Renwei shared many of the same views as his SIIS counterparts. He said both the SED and Vice Foreign Minister Dai Bingguo and Deputy Secretary Negroponte's Senior Dialogue had elevated the relationship. He noted that while he did advise Vice Foreign Minister Dai on the Senior Dialogue, he did not speak directly to Vice Premier Wu Yi. Like Yang, he believed that the SED needed to be more pragmatic. According to Huang, the current SED model in which there were lots of

high-level ministers led to "higher expectations, less outcomes." The SED needed substantive outcomes to be sustainable. He suggested that there be substantive discussions at lower levels before the next round of talks. These discussions could prepare agreements and deliverables for the next round. In addition, such a long-term dialogue should have several "phases" in which plans were made well in advance. For example, Shanghai had a three-year planning cycle for its economy. Huang added that the SED also needed to have more realistic targets. Outside pressure was beneficial and helped China to change. However, unrealistic demands were ineffective. For example, one could not ask a junior high school student to do PHD work. According to Huang, China was still using its old economic opening policy from the 1980's, which was no longer suited to the economy. It was still unclear whether China was willing to change and how long it would take to realize this change.

18. (C) Huang urged that there be more discussions between the two countries on priorities for the SED. As for China's priorities, Huang cautioned that even those staying at the leadership compound in Zhongnanhai probably did not know. However, he believed that China's priority should be fixing the RMB exchange rate. This issue was not only important to both sides, but also affected other important economic issues such as the trade deficit and China's capacity to purchase energy and technology. Both sides also needed to come to an agreement on the pace of reforms. These issues needed to be discussed in a small room among a few talented individuals.

19. (C) Huang noted that both countries were in a fragile political period and it was not clear who would be in charge of the SED process in the future. The SED needed to bear concrete fruits to convince Paulson's and Wu Yi's successors to continue with the process. According to Huang, there would be no fundamental leadership changes on the Chinese side. Both Hu and Wen would be in power for the next few years.

110. (C) Huang noted that he has been involved in many Track II dialogues. Some of these dialogues worked and others did not.

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However, if the United States wanted to institutionalize the SED, then it would be useful to have sub-dialogues or working groups to work through issues. He offered to help organize an academic conference in Shanghai where there could be a more open exchange on issues. Huang also thought it would be important for a majority of the players who worked on SED issues to remain in government even after the change in leadership in the United States. He noted that the WTO accession negotiations occurred during a difficult period in U.S.-China relations. The negotiations were successful, in part, because there were few changes in the personnel working on the negotiations. Huang added that the SED would be more difficult than the WTO accession negotiations. The SED was dealing with some of the issues that resulted from China's accession to the WTO. China did not realize how fast its economy would develop after it entered the WTO. This rapid growth caused many of the problems that the SED was now trying to resolve such as the trade surplus. He said that both sides should draw a lesson from this episode and carefully think through what they would like to happen after the SED.

111. (C) Huang had a more nuanced view of Congress. He said that many people in China still saw Congress and the U.S. media as a negative factor in the relationship. However, the U.S. media and Congress were changing. Major newspapers such as the Wall Street Journal were publishing more balanced reports on China's economy. In addition, more and more members of Congress were making efforts to better understand China. He urged that the Administration work more closely with Congress. He thought it was very useful for Vice Premier Wu Yi to speak on Capitol Hill during the last round of SED. This forced Wu Yi and others within the Chinese government to learn more about Congress.

112. (C) Wright repeated many of the same points that he made

during his conversation at SIIS. In particular, he emphasized that one of the functions of the SED was to create a stable dialogue at the highest level and that Secretary Paulson believed the most effective way of dealing with problems was through dialogue and not passing legislation.

FUDAN ACADEMICS AND STUDENTS: THINK LOCAL

¶13. (C) During a lunch with Fudan University Center for American Studies academics, many of the younger academics worried about the influence of domestic interest groups and Congress on the SED process. One academic characterized the talks as "think local" because U.S. demands were being driven by domestic political considerations. He noted that the general perception in China was that China had to make big concessions, while the United States did not make any concessions during the talks. Another young academic said China had its own domestic political agenda and it was difficult for it to make many economic concessions during this period. Like Huang, he believed that the United States was putting too much pressure on China and had set unrealistic goals.

¶14. (SBU) During a roundtable at the American Studies Center at Fudan University, Wright engaged a group of nine students and five professors who hailed from different parts of China and studied a range of majors. Students asked a number of questions mostly regarding the views of the Congress and the Administration on the SED and China in general. One student inquired what the Administration's strategy was for pacifying Congress on China issues and if the SED was part of that strategy. Another asked how the SED could improve relations between the U.S. and China and if there were divergent views between Congress and the Administration on the SED and the RMB issue. A third asked what the possibilities were for the next administration to take a hard line on China. A professor remarked that many Chinese believed the United States was putting most of the burden of "rebalancing" the economic relationship on China, rather than focusing on what the United States could do to rebalance the relationship.

¶15. (SBU) In response to the students' questions, Wright said the importance of the SED was that it "asked the right

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questions," namely how can the two nations get the economic relationship right? As the relationship between the countries matured, tension was natural, and the SED helped stabilize the relationship. In addition, Wright emphasized four points regarding the SED: 1) the SED was a process, not an event; 2) the SED was a framework for issues to be prioritized and elevated; 3) the SED was a vehicle to deal with tensions; and 4) the SED did not replace other bilateral discussions. Regarding different views between Congress and the Administration, Wright reminded the students that both represented the American people.

On how the SED benefited China, Wright said there were long-term and short-term benefits for both China and the United States. In SED II, China received specific benefits in energy cooperation, financial services, and other important areas.

COMMENT

¶16. (C) Huang and Yang are considered to be the two of the most prominent scholars in Shanghai. Both have close ties to the Chinese government. We are not surprised by Huang's claim that he advises Dai on the Senior Dialogue. Yang is the brother of Foreign Minister Yang Jiechi and was rumored to have been the author of Vice Premier Wu Yi's May 17 Wall Street Journal editorial. It is reassuring to see that both have thought deeply about the SED and agreed with many of Wright's points. Both could play positive roles in any SED Track II discussions.

¶17. (U) Director Wright cleared this message.
SCHUCHAT